

SANSIRI PLC

No. 12/2021

9 February 2021

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Hybrid	BBB-
Outlook:	Negative

Last Review Date: 05/02/21

Company Rating History:

Date	Rating	Outlook/Alert
01/04/20	BBB+	Negative
12/05/14	BBB+	Stable
10/05/13	BBB+	Positive
05/02/10	BBB+	Stable
19/03/09	BBB	Positive
12/07/04	BBB	Stable
08/10/03	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Sansiri PLC (SIRI) and the ratings on SIRI's existing senior unsecured debentures at "BBB+", with a "negative" rating outlook. We also affirm the rating on SIRI's subordinated capital debentures (hybrid debentures) at "BBB-". At the same time, we assign the rating of "BBB+" to SIRI's proposed issue of up to THB3.6 billion in senior unsecured debentures. The new issue rating replaces the issue rating previously assigned on 5 February 2021, following SIRI's request to increase the issue size to up to THB3.6 billion, from THB3.5 billion. The proceeds from the new debentures will be used for business operation.

The ratings on SIRI and its debentures reflect the company's diverse product portfolio and strong market position in both landed property and condominium segments. The ratings also take into consideration SIRI's high level of financial leverage and its low profitability resulting from its high selling and administrative (SG&A) expenses. However, the rising contribution from business management income and share of profit from its joint ventures (JVs) should help improve its profitability in the short to medium term. The ratings are, however, constrained by our concerns over the lingering adverse effects of the Coronavirus Disease 2019 (COVID-19), which could continue to suppress demand for residential property and pressure the profitability of developers in the short to medium term.

SIRI engaged in intense marketing campaign and sale promotion in order to boost sales and clear inventory during the period of sharp market downturn at the height of the pandemic fear. As a result, the company's presales and revenue during the first nine months of 2020 improved from those for the full year of 2019, while its profitability declined. Its presales recorded THB22.9 billion in the first nine months of 2020, 10% higher than the 2019 presales. SIRI recognized total operating revenue of THB26.2 billion in the first nine months of 2020, a 5% increase from the 2019 level. We project SIRI's total operating revenue to stay around THB30 billion annually during 2021-2022, based on the expected delivery of its large backlog.

As of 4 October 2020, SIRI's existing project portfolio consisted of 58 landed property projects, 18 own condominium projects, and 10 JV condominium projects. The total backlog was worth THB31.2 billion. SIRI's own backlog worth THB24.2 billion is expected to be recognized as revenue of THB5.9 billion in the fourth quarter of 2020, THB11.6 billion in 2021, THB6.3 billion in 2022, and the rest during 2023-2024. Its JV backlog will be turned to share profit during the remainder of 2020 through 2023. Total unsold project value (including built and un-built units) amounted to THB67.3 billion. Landed property projects accounted for 56% of total remaining value while condominium projects accounted for the rest.

Due to the softening demand in the residential property market from both local and foreign buyers, we expect property developers to be more cautious in launching new projects. We foresee that price competition in both landed property and condominium segments will be heightened over the next few years. We forecast SIRI's profitability will remain under pressure as a result of the intensifying competition and rising land cost. SIRI's average gross profit

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margin decreased to 23% of total operating revenue during the first nine months of 2020 from 27% in 2019 and 30% in 2018. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin were 18% in the first nine months of 2020, down from 23% in 2019 and 20% in 2018. SIRI's net profit margin tumbled to 4% of total operating revenue during the first nine months of 2020 from 8%-10% during 2015-2019. We believe that a prolonged COVID-19 outbreak will continue to suppress demand in the residential property market and weaken the profitability of property developers. We project SIRI's EBITDA margin to drop below 15% and its net profit margin to remain below 10% over the forecast period.

SIRI's financial leverage improved during the first nine months of 2020. More revenue recognition from title transfers and equity increase from hybrid securities resulted in a decrease of debt to capitalization ratio to 64% as of September 2020 from 68% in 2019 and 65% in 2018. The ratio of funds from operations (FFO) to total debt was 5% during 2018 through the first nine months of 2020. We view that SIRI's debt burden may stay at a high level during the next few years given the uncertainties surrounding the COVID-19 outbreak and a recovery of market demand for residential properties. We project SIRI's debt to capitalization ratio to stay above 66% and its FFO to total debt ratio to stay below 5% over the forecast period.

We assess SIRI's liquidity to be manageable for the next 12 months. SIRI's scheduled debt repayments over the next 12 months will amount to THB17.3 billion, comprising THB2.1 billion in short-term promissory notes (P/Ns), THB0.7 billion in short-term bills of exchanges (B/Es), THB5.8 billion in long-term project loan, THB3.7 billion in long-term P/N for land, and THB5 billion in debentures. As of September 2020, SIRI's sources of liquidity included cash and cash equivalents of THB2.6 billion plus undrawn unconditional committed credit facilities from financial institutions of around THB12 billion. FFO over the next 12 months is forecast to be around THB3 billion. The company also has unencumbered land at book value worth THB19.5 billion and remaining units worth around THB6.25 billion in its own debt-free projects. We expect short-term borrowings to be either repaid or rolled over. Long-term project loans are expected to be repaid with cash received from transfers of sold units, while long-term P/N for land to be converted to project loans thereafter. SIRI plans to refinance its maturing bonds by new bond issuance.

RATING OUTLOOK

The "negative" rating outlook on SIRI reflects our concerns that its financial leverage may stay at a high level during the next few years. Due to the uncertainties surrounding the COVID-19 outbreak and a recovery of residential demand, we project SIRI's debt to capitalization ratio to stay above 66% and its FFO to total debt ratio to stay below 5%.

RATING SENSITIVITIES

SIRI's outlook could be revised back to "stable" should its debt to capitalization ratio stay below 66% and its FFO to total debt ratio increase to 5%-10% on a sustainable basis. A further weakening in its financial profile without clear signs of recovery could trigger a rating downgrade.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
SIRI218A: THB5,000 million senior unsecured debentures due 2021	BBB+
SIRI21NA: THB2,000 million senior unsecured debentures due 2021	BBB+
SIRI222A: THB4,933.4 million senior unsecured debentures due 2022	BBB+
SIRI229A: THB2,000 million senior unsecured debentures due 2022	BBB+
SIRI229B: THB2,500 million senior unsecured debentures due 2022	BBB+
SIRI231A: THB4,000 million senior unsecured debentures due 2023	BBB+
SIRI236A: THB4,000 million senior unsecured debentures due 2023	BBB+
SIRI20PA: THB3,000 million subordinated capital debentures (hybrid debentures)	BBB-
Up to THB3,600 million senior unsecured debentures due within 3 years 8 months	BBB+
Rating Outlook:	Negative

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